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# **China, Peoples Republic of**

## **Market Development Reports**

### **Shanghai: The Gateway to a Developed China**

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#### **Report Highlights:**

**China's sustained economic growth and recent WTO accession have advanced Shanghai's position as a regional trade and financial center. Beyond the current, innate importance of the Shanghai market, the city's trend-setting 17 million consumers serve as a harbinger of economic tendencies in emerging markets throughout China. This brief introduction to the economy, consumers, and food markets of Shanghai is intended as background information for interested American producers and traders.**

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Includes PSD changes: No  
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Shanghai ATO [CH2], CH



China's sustained economic growth and recent accession to the WTO have advanced Shanghai's position as a regional trade and financial center. The modern, cosmopolitan city of over 17 million is home to China's largest and busiest port, a thriving stock exchange, and the crown-jewel of the nation's special economic zones: the Pudong New Area. Multinational corporations relocating their regional headquarters to Shanghai are lured by the city's excellent investment climate, skilled labor force, and millions of sophisticated and trend-setting consumers.

Shanghai's openness and economic development date back to the Opium War of 1840, when Great Britain forced the Qing Dynasty to open the port and grant territorial concessions. As the foreign presence grew and trade expanded, Shanghai became known as the "Paris of the East" for its thriving culture and entertainment industries. The legacies of more than one hundred years of foreign investment are still apparent throughout the city, from the charming colonial architecture of the Bund and the French Concession to the pragmatic entrepreneurship on street corners and in the board rooms of Pudong's new high-rise office buildings.

In the past decade, Shanghai has continued to lead China's entry into the global economy. In September 1999, the world's top business leaders convened in Shanghai for the Global Fortune 500 conference and in October 2001, regional leaders gathered for the annual APEC Summit. The World Expo is expected to be held in Shanghai in 2010, at which time the city will likely have become a global trade, financial, and technological center.

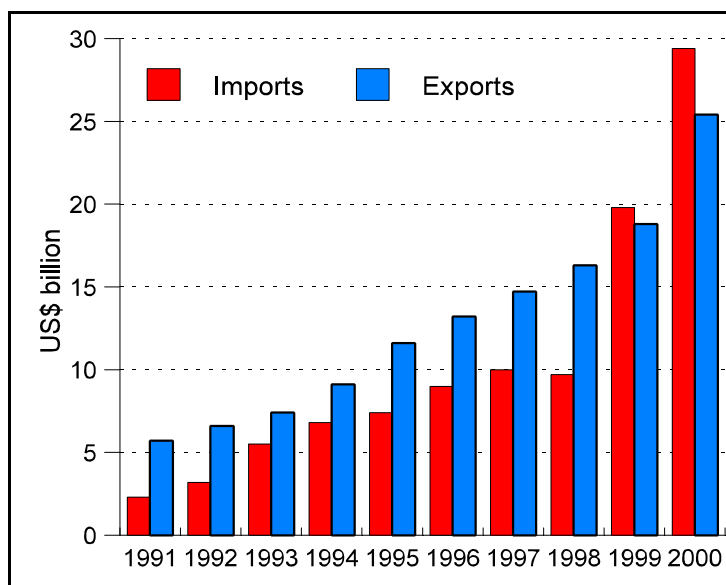
**Table 1.** Shanghai Statistical Overview, 2000

Indicator	Value	Portion of National Total	Annual Growth
Land area (km <sup>2</sup> )	6,341	0.006%	--
Population (million)	16.7	1.3%	13.6%
GDP (RMB billion)	455.1	5.1%	10.8%
Avg urban disposable income (RMB)	11,718	187%	7.2%
Retail sales (RMB billion)	172.2	5.0%	8.3%
Fixed-asset investment (RMB billion)	186.1	7.7%	0.2%
Imports (US\$ billion)	30.1	13.4%	52.1%
Exports (US\$ billion)	24.6	9.9%	34.7%
Utilized FDI (US\$ billion)	3.2	7.9%	11.4%

## The Economy

Shanghai is a commercial and financial powerhouse. With only 0.06% of the country's total area and 1.3% of its population, the municipality accounted for 13.4% of national imports, almost 10% of exports, and nearly 8% of all utilized foreign direct investment in 2000. According to the latest statistics for 2001 (released by the Shanghai Statistics Bureau on January 4), the city's GDP totaled RMB 495.1 billion (US\$59.89 billion), up 10.2 percent over the previous year. Shanghai also has the highest per capita GDP in the country, RMB 37,300 (US\$4,512), a growth of RMB 2,700 (US\$326.09) since 2000.

Shanghai plays a leading role in the country's heavy industries. Its industrial output reached RMB 691.5 billion (US\$83.5 billion) in 2000, and it ranked first for steel production and second for automobile manufacturing. Shanghai is also at the heart of China's light-industrial sector, home to leading brands in the food, cosmetics and textile industries.



**Figure 1.** Shanghai's Foreign Trade, 1991-2000

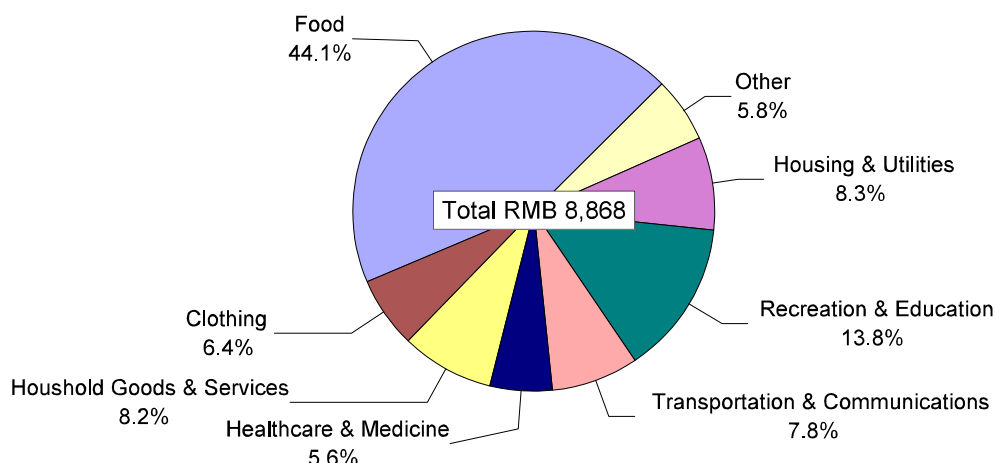
In 2000, Shanghai's exports continued their steady growth, expanding some 35% year-on-year to reach US\$24.5 billion. Container throughput at the city's port was 5.6 million TEUs, a 33% jump over 1999. In 2000, imports outstripped exports, staging a remarkable 48% growth over 1999 and soaring to US\$29.4 billion. Recent growth underscores not only the city's increasing importance as a gateway for imports to the Chinese consumer and industrial markets, but also the continuing shift of direct trade away from the gray channels of South China and Hong Kong.

Shanghai is a major destination for foreign direct investment, which rebounded in 2000 after a three-year decline following the 1997 Asian Financial Crisis. The city's cosmopolitan character, sophisticated and affluent consumers, and highly educated and skilled labor force, as well as the municipal government's preferential policies and service-oriented attitude toward foreign investors, make it a magnet for overseas capital. In 2000, more than half of the city's industrial output was generated by foreign-invested enterprises, with less than one-third of that attributed to overseas Chinese investments (mostly from Hong Kong, Macao, and Taiwan). China's two largest manufacturing joint ventures are based in Shanghai, and many of the world's leading consumer brands--from automobiles to home appliances to packaged foods--have manufacturing or distribution facilities in the municipality.

Shanghai has become the capital of China's burgeoning service industry. Half the city's GDP is attributed to tertiary industries such as banking, retail, finance, trade, insurance, and real-estate development. With an eye to the future, the central government continues to offer preferential policies aimed at developing a high-tech service and manufacturing base in Shanghai.

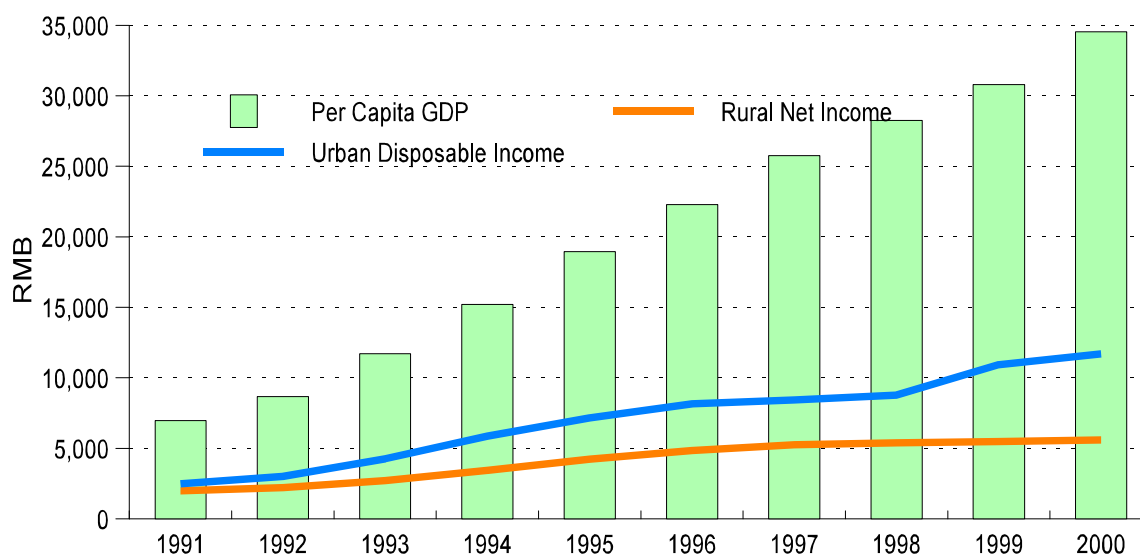
## The Consumers

Shanghai consumers are trend-setters for food, fashion, and lifestyle choices throughout the country. Domestic tourists and travelers usually spend at least a day browsing the shops on Nanjing and Huaihai Roads for a glimpse of the latest trends in the Chinese marketplace. Likewise, shop owners and distributors from across the country flock to the metropolis to preview the latest styles, designs, and flavors set to flood their own cities, and often try to be the first to sign up as exclusive distributors.



**Figure 2.** Annual Per Capita Expenditure of Shanghai Households, 2000

Shanghai's trend-setting role stems from the traditional openness of the Shanghainese, a legacy of the city's colonial past. More recently, new concepts such as instant coffee, microwave ovens, 24-hour convenience stores, and puff pastry made their debut on the Shanghai market before becoming commonplace in major cities nationwide. Today, Shanghai consumers are on the forefront of food-retail modernization, enthusiastically taking on such novelties as hypermarket chains, ready-to-cook foods, and gourmet cafes.



**Figure 3.** Shanghai Per-Capita GDP, Rural and Urban Income

Shanghainese dictate consumer trends because, among other reasons, they can afford to experiment with and purchase new products. Shanghai has among the highest per capita GDP in China, and rising urban and rural disposable income levels continue to fuel new consumption. As with most Chinese consumers, Shanghainese spend much of their disposable income on food, though the portion spent on food will decrease as incomes continue to rise. Shanghai's rising consumption levels offer a glimpse of the power of China's burgeoning middle class.

## The Food Market

Shanghai has one of the most sophisticated food markets in China. Traditionally, China's largest and best-known food brands have been based here, and the city continues to lead the food processing industry and development of food technology. Manufacturers from across the country travel to Shanghai to obtain the latest equipment and know-how, source the highest-quality ingredients, and recruit the best food engineers in the country. Foreign investors have capitalized on these resources, and today Shanghai hosts a number of China's strongest food and beverage manufacturing joint ventures. Not surprisingly, Shanghainese are among China's most sophisticated and quality-conscious consumers of food products.

A glance at Shanghai's Hotel, Restaurant, and Institutional food sector reveals that Shanghainese consumers are eager to experiment with novel cuisines and adopt new tastes. Vincent Lo of Hong Kong's Shui On Construction Company, recently garnered international attention with the completion of his \$150 million Xintiandi (Chinese for "new heaven and earth") art, cultural, shopping, dining, and entertainment project in downtown Shanghai. Xintiandi's upscale and unique Asian, European, and American restaurants are emblematic of Shanghai's booming food market. The 30,000-square meter Xintiandi is the first phase of Taipingqiao, a \$3.2 billion, 52-hectare mega-project that is scheduled to surround a 44,000-square meter park and 12,000-square meter man-made lake with luxury apartment and office buildings.

Chinese and expatriate diners generally have distinct preferences. However, in Shanghai more than elsewhere in China, the two groups are merging into a single high-end clientele, interested in diverse types of cuisine and decor. Coffeehouse chains, gourmet ice-cream shops, and theme restaurants have been among the latest trends in food service. As a favorite destination for tourists, business travelers and international conventions, Shanghai also boasts a strong high-end hotel food-service market.

In the past several years, Shanghai has led a Chinese retail revolution. As home of the oldest and largest retailers in China, the city was the first to experiment with the supermarket concept in the early 1990s, and later served as the testing ground for the convenience-store and hypermarket formats that now drive the retail sector's transformation. Wet markets and grain stores are disappearing as increasingly prevalent superstores (many of them foreign-managed) offer everything from dry groceries, to fresh meat, seafood and produce, to ready-to-cook and ready-to-eat meals, all in one clean, air-conditioned space. Meanwhile, popular new round-the-clock convenience stores are fueling further retail growth, while also squeezing traditional corner shops out of business. Retail competition, though cut-throat, has been a boon for Shanghai's savvy entrepreneurs--today, six of China's top-ten retailers are based here.

As the vanguard of developing China, Shanghai presents exciting opportunities for American companies to help shape and benefit from the emerging Asia-centric regional trade and financial system. From Xintiandi to Pudong, Asian investment is foreshadowing Shanghai's re-emergence as a dynamic regional center. In addition to cultivating its own 17 million sophisticated consumers and presenting a unique window on emerging Chinese markets, Shanghai is becoming a pivotal international player in the evolving WTO-enabled economic order.